

MESICK CONSOLIDATED SCHOOLS

MESICK, MICHIGAN

JUNE 30, 2006

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2006

TABLE OF CONTENTS

	<u>PAGES</u>
Independent Auditors' Report	i-ii
Management's Discussion and Analysis	iii-x
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Balance Sheet - Governmental Funds	3
Reconciliation of Balance Sheet of Governmental Funds to Net Assets	4
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6
Fiduciary Funds	
Statement of Fiduciary Net Assets	7
Notes to Financial Statements	8 - 22
Required Supplementary Information	
Budgetary Comparison Schedule - General Fund	23
Combining and Individual Fund Financial Statements	
Nonmajor Governmental Fund Types	
Combining Balance Sheet	24
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	25
Financial Statements of Individual Funds	
General Fund	
Comparative Balance Sheet	26
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	27
Analysis of Revenues - Budget and Actual	28 - 29
Analysis of Expenditures - Budget and Actual	30 - 36

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2006

TABLE OF CONTENTS

	<u>PAGES</u>
Special Revenue (School Service) Funds	
Combining Balance Sheet	37
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	38
Food Service Fund	
Comparative Balance Sheet	39
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	40
Athletic Activities Fund	
Comparative Balance Sheet	41
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	42
Debt Retirement Fund	
Comparative Balance Sheet	43
Comparative Statement of Revenues, Expenditures and Changes in Fund Balance	44
Oil, Gas and Land Lease Capital Projects Fund	
Comparative Balance Sheet	45
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	46
Fiduciary Fund Types	
Agency Fund	
Statement of Cash Receipts, Disbursements and Balance	47 - 48
Other Information	
Schedule of 2005 Tax Roll	49
Comparative Schedule of Cash, Cash Equivalents and Investments	50
Schedule of Bonds Payable	
1997 School Building and Site Bonds	51
2004 Refunding Bonds	52-54

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CERTIFIED PUBLIC ACCOUNTANTS

July 20, 2006

INDEPENDENT AUDITORS' REPORT

Board of Education
Mesick Consolidated Schools
Mesick, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mesick Consolidated Schools, Mesick, Michigan as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mesick Consolidated School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of Mesick Consolidated Schools, Mesick, Michigan, as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2006, on our consideration of Mesick Consolidated Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages iii through x and 23, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mesick Consolidated Schools, Mesick, Michigan basic financial statements. The combining and individual fund financial statements and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

**Mesick Consolidated Schools
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006**

Mesick Consolidated Schools, a K-12 school district located in Wexford and Manistee Counties, Michigan. The Management's Discussion and Analysis is intended to be the Mesick Consolidated Schools administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

Generally accepted accounting principles (GAAP), require the reporting of two types of financial statements: fund financial statements and government-wide financial statements.

A. Fund Financial Statements

For the most part, the fund financial statements are comparable to prior years' financial statements. The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, school districts' major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in various other funds. These include Special Revenue Funds, Debt Service Funds, and Capital Projects Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition with no asset being reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. The obligations for future years' debt service are not recorded in the fund financial statements.

B. Government-Wide Financial Statements

The government-wide financial statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire District's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation, as well as the bonded debt of the District.

**Mesick Consolidated Schools
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006**

C. Summary of Net Assets

The following schedule summarizes the net assets at fiscal years ended June 30,

	2006 Fiscal Year	2005 Fiscal Year
Assets		
Current Assets	\$ 3,403,562	\$ 3,140,350
Non Current Assets		
Capital Assets	10,783,579	10,781,070
Less Accumulated Depreciation	(3,240,841)	(3,038,168)
Deferred Charges - Net of Accumulated Amortization	43,937	47,624
Total Non Current Assets	7,586,675	7,790,526
Total Assets	\$ 10,990,237	\$ 10,930,876
Liabilities		
Current Liabilities	\$ 1,149,350	\$ 1,084,668
Non Current Liabilities	5,747,924	6,179,448
Total Liabilities	6,897,274	7,264,116
Net Assets		
Invested in Capital Assets Net of Related Debt	1,631,675	1,475,526
Restricted for Debt Service	139,629	158,223
Unrestricted	2,321,659	2,033,011
Total Net Assets	4,092,963	3,666,760
Total Liabilities and Net Assets	\$ 10,990,237	\$ 10,930,876

D. Analysis of Financial Position

During the fiscal year ended June 30, 2006, the District's net assets increased by \$426,203. A few of the more significant factors affecting net assets during the year are discussed below:

1. Depreciation Expense

GASB 34 requires school districts to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2006, \$314,578 was recorded for depreciation expense.

**Mesick Consolidated Schools
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006**

2. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2006, \$114,414 of expenditures were capitalized and recorded as assets of the District. These additions to the District's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets, disposals and the current year's depreciation is a decrease in capital assets in the amount of \$200,164 for the fiscal year ended June 30, 2006.

E. Results of Operations

For the fiscal years ended June 30, the results of operations, on a District-wide basis, were:

	2006		2005	
	Amount	% of Total	Amount	% of Total
General Revenues				
Property Taxes	\$ 1,518,304	17.8%	\$ 1,426,392	17.8%
Investment Earnings	63,321	0.7%	41,570	0.5%
State Sources	5,114,779	59.8%	5,144,022	63.9%
Other	139,376	1.6%	122,504	1.5%
Total General Revenues	6,835,780	79.9%	6,734,488	83.7%
Program Revenues				
Charges for Services	113,103	1.3%	113,331	1.4%
Operating Grants	1,610,531	18.8%	1,200,137	14.9%
Total Program Revenues	1,723,634	20.1%	1,313,468	16.3%
Total Revenues	8,559,414	100.0%	8,047,956	100.0%
Expenses				
Instruction	4,494,557	55.2%	4,722,049	56.7%
Supporting Services	2,612,676	32.1%	2,483,403	29.8%
Food Service	317,770	3.9%	314,183	3.8%
Athletic Activities	158,763	2.0%	237,019	2.8%
Community Services	6,487	0.1%	1,272	0.1%
Capital Outlay	7,942	0.1%	12,466	0.1%
Interest on Long-Term Debt	210,440	2.6%	248,015	3.0%
Other Transactions	6,311	0.1%	2,694	0.1%
Depreciation and Amortization	318,265	3.9%	302,311	3.6%
Total Expenses	8,133,211	100.0%	8,323,412	100.0%
Change in Net Assets	\$ <u>426,203</u>		\$ <u>(275,456)</u>	

**Mesick Consolidated Schools
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006**

F. Analysis of Significant Revenues and Expenses

Significant revenues and expenses are discussed in the segments below:

1. Property Taxes

The District levies 18 mills of property taxes for operations on non-homestead properties, less the mandatory reductions required by the Headlee Amendment, Article IX, Section 31. According to Michigan law, the taxable levy is based on the taxable valuation of properties. The annual taxable valuation increases are capped at the rate of the prior year's Consumer's Price Index increase or 5%, whichever is less. At the time property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is half of the property's market value.

For the 2005-2006 fiscal year, the District levied \$970,471 in non-homestead property taxes. The amount of unpaid general property taxes at June 30, 2006, was \$14,484.

The following table summarizes the non-homestead property tax levies for operations for the past five years:

Fiscal Year	Non-Homestead Tax Levy	(Decrease) from Prior Year
2005-2006	970,471	7.92%
2004-2005	899,267	6.51%
2003-2004	844,338	8.16%
2002-2003	780,646	-0.13%
2001-2002	781,681	3.93%

2. State Sources

The majority of the state sources is comprised of the per student foundation allowance. The State of Michigan funds districts based on a blended student enrollment. The blended enrollment consists of a three year average of 75% of the September 2005 count and 25% of the February 2005 count as well as 80% of the September 2004 and 2003 count and 20% of the February 2004 and 2003 count. For the 2005-2006 fiscal year, the District received a base foundation allowance of \$6,875 per student FTE. This amounted to a \$175 per student increase over the amount received for the 2004-2005 fiscal year.

**Mesick Consolidated Schools
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006**

3. Student Enrollment

The following schedule summarizes the blended student enrollment for the past five fiscal years:

Fiscal Year	Blended Student FTE	FTE Change from Prior Year
2005-2006	885	(17)
2004-2005	902	(30)
2003-2004	932	(2)
2002-2003	934	1
2001-2002	933	(21)

4. Operating Grants

The District funds a significant portion of its operations with categorical sources. For the fiscal year ended June 30, 2006, federal, state, and other grants accounted for \$1,610,531. This represents an increase over the total grant sources of \$1,200,137 received for the 2004-2005 fiscal year.

**Mesick Consolidated Schools
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006**

5. Comparative Expenditures

A comparison of the expenditures reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances is shown below:

Expenditures	2005-2006 Fiscal Year	2004-2005 Fiscal Year	Increase (Decrease)
Instruction	\$ 4,562,429	\$ 4,753,809	\$ (191,380)
Supporting Services	2,681,268	2,557,700	123,568
Food Service Activities	327,405	314,183	13,222
Athletic Activities	158,763	237,019	(78,256)
Community Services	6,487	1,272	5,215
Capital Outlay	7,942	224,673	(216,731)
Debt Service	574,310	576,441	(2,131)
Other Transactions	5,101	3,034	2,067
Total Expenditures	\$ 8,323,705	\$ 8,668,131	\$ (344,426)

A comparison of expenditures by fund is as follows:

Expenditures	2005-2006 Fiscal Year	2004-2005 Fiscal Year	Increase (Decrease)
General Fund	\$ 7,250,184	\$ 7,312,781	\$ (62,597)
Food Service Fund	327,405	314,183	13,222
Athletic Activities Fund	158,763	237,019	(78,256)
Debt Service Funds	579,411	579,475	(64)
Capital Projects Fund	7,942	224,673	(216,731)
Total Expenditures	\$ 8,323,705	\$ 8,668,131	\$ (344,426)

**Mesick Consolidated Schools
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006**

G. General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the 2005-2006 fiscal year, the District amended the general fund budget one time, with the Board adopting the change in May 2006. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget, and actual totals from operations:

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
Total Revenues	\$ 7,376,383	\$ 7,657,065	\$ 7,686,352
<u>EXPENDITURES</u>			
Instruction	\$ 5,086,852	\$ 4,751,937	\$ 4,562,429
Supporting Services	2,455,112	2,665,109	2,681,268
Community Services	6,487	6,487	6,487
Transfers Out	<u>142,953</u>	<u>178,450</u>	<u>178,486</u>
Total Expenditures	\$ <u>7,691,404</u>	\$ <u>7,601,983</u>	\$ <u>7,428,670</u>

The original revenue budget of \$7.376 million was increased to \$7.657 primarily as a result of changes in state and federal and other funding during the year.

The total revenues variance of \$29,287 is .3% of total budgeted revenues and the total expenditures variance of \$173,313 is 2% of the total General Fund expenditures for the year.

H. Capital Asset and Debt Administration

1. Capital Assets

By the end of the 2005-2006 fiscal year, the District had invested over \$10.783 million in a broad range of capital assets, including school buildings and facilities, school buses and other vehicles, and various types of equipment. This represents a net increase of approximately \$2,509 over the prior fiscal year. Depreciation expense for the year amounted to \$314,578, bringing the accumulation to \$3.240 million as of June 30, 2006.

**Mesick Consolidated Schools
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2006**

2. Long-Term Debt

At June 30, 2006, the District had \$5,955,000 in bonded debt outstanding. This represents a decrease of \$360,000 over the amount outstanding at the close of the prior fiscal year.

I. Factors Bearing on the District's Future

At the time that these financial statements were prepared and audited, the District was aware of the following items that could significantly affect its financial health in the future:

- With the current economic condition in the country, and especially in the State of Michigan, uncertainty surrounds the level at which districts will be funded for the student foundation allowance for the 2006-2007 and 2007-2008 fiscal years. The early indication is that the foundation allowance will increase slightly in 2006-2007. This will pose a challenge to the District to maintain structural balance while continuing with its educational programming.
- As with other employers, the District continues to face a rapid increase in rates paid for employee benefits, particularly for health insurance. Additionally, the State has increased the retirement rate for 2005-2006 to 17.74% from 16.34%, and another increase is projected for 2006-2007. The number of retirees projected to occur over the next few years may also result in higher annual increases.
- The contracts with the Mesick Education Association, and the Michigan Education Association, the unions that represent the teaching staff expire at the end of the 2006-2007 school year. Issues relating to the contracts with the Mesick Educational Support Personnel Association for the support staff are negotiated on an annual basis.
- The State of Michigan continues to increase its focus on student achievement. Results of standardized test scores (Michigan Educational Assessment Program) are compared from year to year, with the results being tabulated by school building and by district. With the changes to the federal Title I legislation resulting from the No Child Left Behind Act, adequate yearly progress of students becomes very important. This increase in assessments of students will all need to be funded by the district.
- On the positive side, Mesick Consolidated Schools has continued to provide for updates to the infrastructure of the district with the completion of 2 new classrooms as well as other necessary building repairs and improvements. Technology has also been updated as needed as well.

J. Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact the Business Manager, Mesick Consolidated Schools, 210 Mesick Avenue, Mesick, Michigan 49668.

MESICK CONSOLIDATED SCHOOLS

MESICK, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2006

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 2,076,284
Taxes Receivable	21,452
Inventories	4,186
Due from Other Governmental Units	1,242,999
Investments	58,641
Total Current Assets	<u>3,403,562</u>

NON CURRENT ASSETS

Capital Assets	10,783,579
Less Accumulated Depreciation	(3,240,841)
Deferred Charges - Net of Accumulated Amortization	43,937
Total Non Current Assets	<u>7,586,675</u>
TOTAL ASSETS	<u>\$ 10,990,237</u>

LIABILITIES AND NET ASSETS

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$ 259,075
Accrued Interest Payable	31,946
Salaries Payable	371,024
Deferred Revenue	92,305
Current Portion of Non Current Liabilities	395,000
Total Current Liabilities	<u>1,149,350</u>

NON CURRENT LIABILITIES

Bonds Payable	5,955,000
Compensated Absences	187,924
Less Current Portion of Non Current Liabilities	(395,000)
Total Non Current Liabilities	<u>5,747,924</u>
Total Liabilities	<u>6,897,274</u>

NET ASSETS

Invested in Capital Assets Net of Related Debt	1,631,675
Restricted for Debt Service	139,629
Unrestricted	2,321,659
Total Net Assets	<u>4,092,963</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,990,237</u>

The notes to the financial statements are an integral part of this statement.

MESICK CONSOLIDATED SCHOOLS

MESICK, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		GOVERNMENTAL
		CHARGES FOR SERVICES	OPERATING GRANTS	ACTIVITIES
				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
<u>GOVERNMENTAL ACTIVITIES</u>				
Instruction				
Basic Programs	\$ 3,449,576	\$ 6,888	\$ 318,278	\$ (3,124,410)
Added Needs	926,125	0	1,088,875	162,750
Adult/Continuing Education	118,856	0	0	(118,856)
Supporting Services				
Pupil	170,783	0	0	(170,783)
Instructional Staff	243,377	0	0	(243,377)
General Administration	294,352	0	0	(294,352)
School Administration	496,823	0	0	(496,823)
Business	89,750	0	0	(89,750)
Operation and Maintenance	722,611	0	0	(722,611)
Pupil Transportation Services	395,549	0	0	(395,549)
Central Services	199,431	0	0	(199,431)
Food Service	317,770	80,131	203,378	(34,261)
Athletic Activities	158,763	26,084	0	(132,679)
Community Services	6,487	0	0	(6,487)
Capital Outlay	7,942	0	0	(7,942)
Interest on Long Term Debt	210,440	0	0	(210,440)
Other Transactions	6,311	0	0	(6,311)
Unallocated Amortization	3,687	0	0	(3,687)
Unallocated Depreciation	314,578	0	0	(314,578)
Total Governmental Activities	<u>\$ 8,133,211</u>	<u>\$ 113,103</u>	<u>\$ 1,610,531</u>	<u>(6,409,577)</u>
<u>GENERAL REVENUES</u>				
Property Taxes - General Purposes				970,471
Property Taxes - Debt Service				547,833
Investment Earnings				63,321
State Sources				5,114,779
Other				139,376
Total General Revenues				<u>6,835,780</u>
Change in Net Assets				426,203
NET ASSETS - Beginning of Year				<u>3,666,760</u>
NET ASSETS - End of Year				\$ 4,092,963

The notes to the financial statements are an integral part of this statement.

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2006

	GENERAL FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>			
Cash and Cash Equivalents	\$1,612,887	\$ 463,397	\$ 2,076,284
Taxes Receivable	14,484	6,968	21,452
Due from Other Funds	24,113	0	24,113
Inventories	0	4,186	4,186
Due from Other Governmental Units	1,242,999	0	1,242,999
Investments	58,641	0	58,641
TOTAL ASSETS	\$2,953,124	\$ 474,551	\$ 3,427,675
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Accounts Payable	\$ 259,075	\$ 0	\$ 259,075
Salaries Payable	371,024	0	371,024
Due to Other Funds	0	24,113	24,113
Deferred Revenue	103,904	5,061	108,965
Total Liabilities	734,003	29,174	763,177
<u>FUND BALANCES</u>			
Reserved for Inventory	0	4,186	4,186
Reserved for Debt Retirement	0	168,111	168,111
Designated for Compensated Absences	200,000	0	200,000
Unreserved, Undesignated Reported In:			
General Fund	2,019,121		2,019,121
Special Revenue Funds	0	6,153	6,153
Capital Projects Fund	0	266,927	266,927
Total Fund Balances	2,219,121	445,377	2,664,498
TOTAL LIABILITIES AND FUND BALANCES	\$2,953,124	\$ 474,551	\$ 3,427,675

The notes to the financial statements are an integral part of this statement.

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS

JUNE 30, 2006

Total Governmental Fund Balances	\$ 2,664,498
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Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are
not reported in the funds

The cost of the capital assets is	10,783,579	
Accumulated depreciation is	<u>(3,240,841)</u>	7,542,738

Long term liabilities are not due and payable in the current period and are not
reported in the funds

Bonds Payable		(5,955,000)
Compensated Absences		(187,924)

Accrued interest is not included as a liability in government funds, it is recorded when paid	(31,946)
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The issuance of Long-Term Debt provides current financial resources to
governmental funds, while the repayment of the principal of long-term debt
consumes the current financial resources of governmental funds. Neither
transaction, however, has any effect on net assets. Also, governmental funds
report the effect of issuance costs, premiums, discounts and similar items when
debt is first issued, whereas these amounts are deferred and amortized in the
statement of activities over the life of the Long-Term bond issue.

Bond Issuance Costs, Premiums and Discounts	52,235	
Amortization of Bond Issuance Costs, Premiums and Discounts on Bonds	<u>(8,298)</u>	43,937

Balance of taxes receivable at June 30, 2006, expected to be collected after September 1, 2006	<u>16,660</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 4,092,963</u></u>
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The notes to the financial statements are an integral part of this statement.

MESICK CONSOLIDATED SCHOOLS

MESICK, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2006

	GENERAL FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>REVENUES</u>			
Local Sources	\$ 1,055,265	\$ 669,416	\$ 1,724,681
State Sources	5,606,209	15,217	5,621,426
Federal Sources	555,049	191,631	746,680
Other Transactions	412,069	0	412,069
Total Revenues	7,628,592	876,264	8,504,856
<u>EXPENDITURES</u>			
Instruction			
Basic Programs	3,504,113	0	3,504,113
Added Needs	940,291	0	940,291
Adult/Continuing Education	118,025	0	118,025
Supporting Services			
Pupil	170,793	0	170,793
Instructional Staff	248,624	0	248,624
General Administration	306,744	0	306,744
School Administration	503,674	0	503,674
Business	83,035	0	83,035
Operation and Maintenance	718,839	0	718,839
Pupil Transportation Services	450,874	0	450,874
Central Services	198,685	0	198,685
Food Service	0	327,405	327,405
Athletic Activities	0	158,763	158,763
Care and Custody of Children	6,487	0	6,487
Capital Outlay	0	7,942	7,942
Debt Service			
Principal	0	360,000	360,000
Interest	0	214,310	214,310
Other Transactions	0	5,101	5,101
Total Expenditures	7,250,184	1,073,521	8,323,705
Excess (Deficiency) of Revenues Over (Under) Expenditures	378,408	(197,257)	181,151
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In	57,760	178,486	236,246
Transfers Out	(178,486)	(57,760)	(236,246)
Sale of Timber	0	54,558	54,558
Total Other Financing Sources (Uses)	(120,726)	175,284	54,558
Net Change in Fund Balance	257,682	(21,973)	235,709
FUND BALANCE - Beginning of Year	1,961,439	467,350	2,428,789
FUND BALANCE - End of Year	\$ 2,219,121	\$ 445,377	\$ 2,664,498

The notes to the financial statements are an integral part of this statement.

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

Net change in Fund Balances Total Governmental Funds	\$ 235,709
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlay as expenditures. In the statement of activities, these costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	(314,578)
Capital Outlay	114,414
Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:	
Accrued Interest Payable - Beginning of Year	35,816
Accrued Interest Payable - End of Year	(31,946)
Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)	360,000
Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:	
Deferred Revenue - Property Taxes - Beginning of Year	(22,709)
Deferred Revenue - Property Taxes - End of Year	16,660
The issuance of Long-Term Debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities over the life of the Long-Term bond issue.	
Amortization of Bond Issuance Costs, Premiums and Discounts on Bonds	(3,687)
Employees Early Retirement and Compensated Absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:	
Compensated Absences - Beginning of Year	224,448
Compensated Absences - End of Year	(187,924)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 426,203</u>

The notes to the financial statements are an integral part of this statement.

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	<u>AGENCY FUND</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	\$ 117,388
	<u> </u>
<u>LIABILITIES AND NET ASSETS</u>	
<u>LIABILITIES</u>	
Due to Groups and Organizations	\$ 117,388
	<u> </u>
<u>NET ASSETS</u>	<u>0</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 117,388</u>

The notes to the financial statements are an integral part of this statement.

MESICK CONSOLIDATED SCHOOLS

MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Mesick Consolidated Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The School District is located in Wexford and Manistee Counties with its administrative offices located in Mesick, Michigan. The District operates under an elected 7-member board of education and provides services to its students in elementary, high school, special education and adult education instruction, guidance, health, transportation, food service, and athletics. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. The District is not included in any other governmental reporting entity as defined by the generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column is presented on a consolidated basis, and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

MESICK CONSOLIDATED SCHOOLS

MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental fund:

The *GENERAL FUND* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Other Non-Major Funds

The *SPECIAL REVENUE FUNDS* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

The *DEBT SERVICE FUND* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *OIL, GAS AND LAND LEASE CAPITAL PROJECTS FUND* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

This capital projects fund does not include capital project activities funded with a bond issued after May 1, 1994. Therefore, this capital project is not required to comply with the applicable provisions of §1351a of the Revised School Code.

MESICK CONSOLIDATED SCHOOLS

MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

Fiduciary Funds

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *AGENCY FUND* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on a blended average of pupil membership counts taken in February and September of 2005, 2004 and 2003. For fiscal year ended June 30, 2006, the per pupil foundation allowance was \$6,875 for Mesick Consolidated Schools.

MESICK CONSOLIDATED SCHOOLS

MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30th is reported as accounts receivable.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

D. Other Accounting Policies

1. Cash and Cash Equivalents and Investments

Cash includes amounts in demand deposits.

Investments are carried at market value.

The District complies with State statutes regarding investment of funds.

The Board policy on investment of funds authorizes the School District to invest as follows:

- (a) Bonds, bills, or notes of the United States, or obligations, the principal and interest of which are fully guaranteed by the United States Government.
- (b) Certificates of deposit issued by any state or national bank organized and authorized to operate in this state.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States.
- (e) United States government or federal agency obligation repurchase agreements.
- (f) Bankers' acceptances issued by a bank that is a member of the federal deposit insurance corporation.
- (g) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.

MESICK CONSOLIDATED SCHOOLS

MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

- (h) Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district.

The School's deposits and investments are held separately by several of the School District's funds.

2. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables".

3. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. Property taxes are assessed as of January 1 and billed and due December 1. Unpaid taxes become delinquent as of February 14th and are subject to penalties and interest after that date. Uncollected taxes at year-end are deferred in the governmental fund financial statements as are not expected to be collected within 60 days of the end of the current fiscal period.

For the year ended June 30, 2006, the District levied the following amounts per \$1,000 of taxable valuation:

<u>Fund</u>	<u>Mills</u>
General Fund – Non-homestead	18.00
Debt Service Fund – Homestead and non-homestead	4.25

4. Inventories and Prepaid Expenditures

Inventories are valued at cost. In the General Fund, the School District considers all supplies to be consumed when acquired and any inventories on hand at year-end are considered to be immaterial. The food service inventory consists of food products held for consumption. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

MESICK CONSOLIDATED SCHOOLS

MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Land improvements	20 years
Buildings and additions	20 - 50 years
Furniture and other equipment	5 - 20 years
Textbooks and library books	5 – 7 years
Transportation equipment	10 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000 for all capital assets.

6. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused sick pay benefits. The amount allowable to be compensated for depends on the position and the longevity of the individual employee. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance and issuance costs, whether or not withheld from the actual debt proceeds received, are reported as other financing uses.

8. Fund Equity

In the fund financial statements, the unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Reservations of fund balance are for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

MESICK CONSOLIDATED SCHOOLS

MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

9. Use of Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds.

The District maintains a formalized encumbrance system. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation is utilized in the governmental funds. Encumbrances outstanding at year end do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In June, the superintendent submits to the school board a proposed operating budget for the fiscal year commencing on July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations if any are noted in the required supplementary information section.
4. The superintendent is charged with general supervision of the budgets and shall hold the budgets and shall hold the department heads responsible for performance of their responsibilities.

MESICK CONSOLIDATED SCHOOLS

MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

5. During the year the budgets are monitored and amendments to the budget resolution are made when it is deemed necessary.
6. Budgeted amounts are as originally adopted or as amended by the School Board of Education during the year.

B. Excess of Expenditures Over Appropriations

Excess of expenditures over appropriations occurred in the following funds:

Food Service Fund expenditures of \$327,405 exceeded appropriations of \$315,350 by \$12,055.

NOTE 3 – DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments – Credit Risk

The District's deposits and investments are all on deposit with banks located in the State of Michigan and the Michigan School District Liquid Asset Fund Plus.

Investment rate risk. The District will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the District's cash requirement.

Foreign currency risk. The District is not authorized to invest in investments, which have this type of risk.

Credit risk. The District will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the District's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the District will do business in accordance with the District's investment policy.

Concentration of credit risk. The District will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2006, \$1,865,289 of the government's bank balance of \$2,385,389 was exposed to custodial credit risk because it was uninsured and uncollateralized.

MESICK CONSOLIDATED SCHOOLS

MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered, or securities held by the District or the District's agent in the District's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the District's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the District's name. At year end all of the District's investments were uncategorized as to risk.

At year-end, the only investments were investment trust funds.

Investments not subject to categorization:

Investment Trust Funds \$ 58,641

The District invests certain excess funds in the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports that as of June 30, 2006, the fair value of the District's investments is the same as the value of the pool shares.

Balance sheet classifications:

	Deposits	Investments	Fiduciary Assets	Total
Cash	\$ 2,076,284	\$ 0	\$ 117,388	\$ 2,193,672
Investments	0	58,641	0	58,641
	<u>\$ 2,076,284</u>	<u>\$ 58,641</u>	<u>\$ 117,388</u>	<u>\$ 2,252,313</u>

B. Receivables

Receivables as of year end for the government's individual major funds and nonmajor, and fiduciary funds in the aggregate; including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Nonmajor And Other Funds	Total
Receivables			
Taxes	\$ 14,484	\$ 6,968	\$ 21,452
Other Governmental Units	1,242,999	0	1,242,999
Total Receivables	<u>\$ 1,257,483</u>	<u>\$ 6,968</u>	<u>\$ 1,264,451</u>

The allowance for doubtful accounts is not considered to be material for disclosure.

MESICK CONSOLIDATED SCHOOLS

MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Delinquent Property Taxes Receivable-General Fund	\$ 13,196	\$ 0
Delinquent Property Taxes Receivable-Debt Service Funds	3,464	0
Grant Receipts Received, But Not Yet Utilized	0	92,305
Total Deferred/Unearned Revenue for Governmental Funds	\$ 16,660	\$ 92,305

C. Capital Assets

A summary of changes in the District's capital assets follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Assets not being depreciated				
Land	\$ 200,631	\$ 0	\$ 0	\$ 200,631
Other Capital assets:				
Land improvements	410,960	0	0	410,960
Buildings and additions	8,275,372	0	0	8,275,372
Machinery and equipment	564,998	9,635	0	574,633
Textbooks and library books	509,478	47,019	0	556,497
Transportation equipment	819,631	57,760	111,905	765,486
Subtotal	10,580,439	114,414	111,905	10,582,948
Accumulated Depreciation				
Other Capital assets:				
Land improvements	199,352	18,734	0	218,086
Buildings and additions	1,562,495	142,335	0	1,704,830
Machinery and equipment	450,600	15,352	0	465,952
Textbooks and library books	316,273	75,378	111,905	279,746
Transportation equipment	509,448	62,779	0	572,227
	3,038,168	314,578	111,905	3,240,841
Net other capital assets	7,542,271	(200,164)	0	7,342,107
Net capital assets	\$ 7,742,902	\$ (200,164)	\$ 0	\$ 7,542,738

MESICK CONSOLIDATED SCHOOLS

MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

Depreciation for the fiscal year ended June 30, 2006 amounted to \$314,578. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

D. Long-Term Debt

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

The following is a summary of governmental long-term obligations for the District for the year ended June 30, 2006:

	Compensated Absences		Bonds		Total
Balance July 1, 2005	\$	224,448	\$	6,315,000	\$ 6,539,448
Additions		0		0	0
Deletions		36,524		360,000	396,524
Balance June 30, 2006		187,924		5,955,000	6,142,924
Less current portion		0		395,000	395,000
Total due after one year	\$	187,924	\$	5,560,000	\$ 5,747,924

Long-term debt at June 30, 2006 is as follows:

2004 Refunding Bonds Due in Annual Installments of \$395,000 to \$550,000 Through May 1, 2018, Interest at 2.00% to 3.80%	\$	5,955,000
Compensated Absences		187,924
Total Long-Term	\$	6,142,924

The annual requirements to amortize debt outstanding as of June 30, 2006, including interest payments of \$1,408,950 are as follows:

Year ending June 30,	Principal		Interest		Amounts Payable
2007	\$	395,000	\$	191,150	\$ 586,150
2008		425,000		183,250	608,250
2009		450,000		173,688	623,688
2010		465,000		161,312	626,312
2011		480,000		147,362	627,362
2012-2016		2,640,000		490,038	3,130,038
2017-2018		1,100,000		62,150	1,162,150
		5,955,000		1,408,950	7,363,950

MESICK CONSOLIDATED SCHOOLS

MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

Compensated absences	187,924	0	187,924
	\$ 6,142,924	\$ 1,408,950	\$ 7,551,874

The annual requirements to amortize the accrued sick leave is uncertain because it is unknown when the employees will use the sick leave.

E. Short-Term Debt

The District incurred no short-term debt activity for the year.

F. Interfund Receivables, Payables, and Transfers

Interfund Receivables and Payables as shown in the individual fund financial statements at June 30, 2006, were:

	Interfund Receivables	Interfund Payables
General Fund	\$ 24,113	\$ 0
School Service Fund - Food Service Fund	0	24,113
	\$ 24,113	\$ 24,113

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers are as shown in the individual fund financial statements at June 30, 2006, were:

	Transfers In	Transfers Out
General Fund	\$ 57,760	\$ 178,486
School Service Fund - Food Service Fund	44,000	0
School Service Fund - Athletic Activities	134,486	0
Capital Projects Fund - Oil, Gas and Land Lease	0	57,760
	\$ 236,246	\$ 236,246

Transfers are used to move unrestricted general fund revenues to finance various programs that the School must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies.

MESICK CONSOLIDATED SCHOOLS

MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

G. Designated and Reserved Fund Balance

The School has designated the General Fund balance as follows:

1. Compensated Absences

The contracts with teachers and non-teaching personnel have various provisions for the accumulation of compensated absences. Upon retirement or termination, if the employee has met certain contract provisions, the employee may receive a cash payment for the accumulated benefits. At June 30, 2006, the liability to the employees for accumulated sick leave and/or early retirement and related fringe benefits is estimated at \$187,924 as of June 30, 2006, the School has designated \$200,000 of its General Fund balance towards paying this future long-term obligation.

NOTE 4 – OTHER INFORMATION

A. Employee Retirement System

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Office of Retirement Services, P.O. Box 30171, Lansing, Michigan 48909 or by calling (517) 322-5103.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

MESICK CONSOLIDATED SCHOOLS

MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2006, were 14.87% from July 1 2005 to September 30, 2005 and 16.34% from October 1 2005 to June 30, 2006.

The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2006, 2005 and 2004 were \$644,449, \$609,292 and \$549,968 respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post-employment Benefits

Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

B. Single Audit Report

Current federal guidelines require entities with federal expenditures exceeding \$500,000 to have a "single audit" of federally funded programs. This audit is being performed and the reports based thereon will be issued under separate cover.

C. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2006 or any of the prior three years.

MESICK CONSOLIDATED SCHOOLS

MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

D. Lease Information

The rental expense for the year ended June 30, 2006 was \$ 8,794.

The rental expense consists of lease agreements on copiers and a postage meter. The future minimum lease payments for these leases are as follows:

<u>YEAR ENDING</u>	<u>AMOUNTS</u>
2006	\$ 8,794
2007	4,397
	<u>\$ 13,191</u>

E. "Durant" Case Settlement

The school district accepted an offer made by the State of Michigan to all "non-plaintiff" school districts for settlement of the "Durant" case, which was a suit alleging underfunding by the State of Michigan for State mandated special education programs. Mesick Consolidated Schools will receive a total settlement from this case of \$88,208, and the State will pay it in the following manner:

- (a) 50% of the settlement (or \$44,104) will be paid to the District over a ten-year period beginning November 15, 1998. These funds are restricted and can be used only for school buses, electronic technology, instructional material and software, school security, textbooks, infrastructure or infrastructure improvement, training for technology, or to reduce or eliminate voter-approved debt that was issued prior to 11/19/97.
- (b) 50% of the settlement (or \$44,104) will be paid to the District over a fifteen-year period beginning May 15, 1999. These funds are also restricted and can be used only for the following items and in the order presented:
 - (i) reduce or eliminate voter-approved debt issued prior to 11/19/97.
 - (ii) reduce or eliminate other limited tax obligation debt.
 - (iii) deposit into a sinking fund.

The School District has approved using their settlement funds for technology and reduction of bonded indebtedness.

A reconciliation of "Durant" funds received, spent and to be received in the future is as follows:

	<u>Ten-Year Payoff</u>	<u>Fifteen-Year Payoff</u>	<u>Total</u>
Settlement	\$ 44,104	\$ 44,104	\$ 88,208
Received and Spent Prior Years	(30,870)	(20,580)	(51,450)
Received and Spent 05/06	(4,410)	(2,940)	(7,350)
Balance as of June 30, 2006	<u>\$ 8,824</u>	<u>\$ 20,584</u>	<u>\$ 29,408</u>

MESICK CONSOLIDATED SCHOOLS

MESICK, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL AMOUNTS BUDGETARY BASIS
<u>REVENUES</u>			
Local Sources	\$ 1,039,769	\$ 1,063,649	\$ 1,055,265
State Sources	5,532,308	5,615,088	5,606,209
Federal Sources	545,167	574,528	555,049
Other Transactions	259,139	403,800	412,069
Total Revenues	7,376,383	7,657,065	7,628,592
<u>EXPENDITURES</u>			
Instruction			
Basic Programs	3,722,717	3,622,605	3,504,113
Added Needs	1,236,214	1,007,347	940,291
Adult/Continuing Education	127,921	121,985	118,025
Supporting Services			
Pupil	104,887	174,374	170,793
Instructional Staff	2,819	258,529	248,624
General Administration	113,500	303,609	306,744
School Administration	732,975	496,825	503,674
Business	132,754	78,718	83,035
Operation and Maintenance	753,090	751,919	718,839
Pupil Transportation Services	403,666	393,438	450,874
Central Services	211,421	207,697	198,685
Community Services			
Care and Custody of Children	6,487	6,487	6,487
Total Expenditures	7,548,451	7,423,533	7,250,184
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	(172,068)	233,532	378,408
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In	0	0	57,760
Transfers Out	(142,953)	(178,450)	(178,486)
Total Other Financing Sources (Uses)	(142,953)	(178,450)	(120,726)
Net Change in Fund Balance	(315,021)	55,082	257,682
FUND BALANCE - Beginning of Year	1,508,446	1,961,439	1,961,439
FUND BALANCE - End of Year	\$ 1,193,425	\$ 2,016,521	\$ 2,219,121

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES

JUNE 30, 2006

	SPECIAL REVENUE FUNDS	DEBT FUND	CAPITAL PROJECTS FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 31,863	\$ 164,607	\$ 266,927	\$ 463,397
Taxes Receivable	0	6,968	0	6,968
Inventory	4,186	0	0	4,186
<hr/>				
TOTAL ASSETS	\$ 36,049	\$ 171,575	\$ 266,927	\$ 474,551
<hr/>				
<u>LIABILITIES AND FUND BALANCES</u>				
<u>LIABILITIES</u>				
Due to Other Funds	\$ 24,113	\$ 0	\$ 0	\$ 24,113
Deferred Revenue	1,597	3,464	0	5,061
<hr/>				
Total Liabilities	25,710	3,464	0	29,174
<hr/>				
<u>FUND BALANCE</u>				
Reserved for Inventory	4,186	0	0	4,186
Reserved for Debt Retirement	0	168,111	0	168,111
Unreserved, Undesignated	6,153	0	266,927	273,080
<hr/>				
Total Fund Balances	10,339	168,111	266,927	445,377
<hr/>				
TOTAL LIABILITIES AND FUND BALANCES	\$ 36,049	\$ 171,575	\$ 266,927	\$ 474,551
<hr/>				

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES

YEAR ENDED JUNE 30, 2006

	SPECIAL REVENUE FUNDS	DEBT FUND	CAPITAL PROJECTS FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
<u>REVENUES</u>				
Local Sources	\$ 106,700	\$ 555,217	\$ 7,499	\$ 669,416
State Sources	11,747	2,940	530	15,217
Federal Sources	191,631	0	0	191,631
Total Revenues	310,078	558,157	8,029	876,264
<u>EXPENDITURES</u>				
Food Service Activities	327,405	0	0	327,405
Athletic Activities	158,763	0	0	158,763
Capital Outlay	0	0	7,942	7,942
Debt Service				
Principal	0	360,000	0	360,000
Interest	0	214,310	0	214,310
Other Transactions	0	5,101	0	5,101
Total Expenditures	486,168	579,411	7,942	1,073,521
Excess (Deficiency) of Revenues Over (Under) Expenditures	(176,090)	(21,254)	87	(197,257)
<u>OTHER FINANCING SOURCES</u>				
Transfers In	178,486	0	0	178,486
Transfers Out	0	0	(57,760)	(57,760)
Sale of Timber	0	0	54,558	54,558
Total Other Financing Sources (Uses)	178,486	0	(3,202)	175,284
Net Change in Fund Balance	2,396	(21,254)	(3,115)	(21,973)
FUND BALANCE - Beginning of Year	7,943	189,365	270,042	467,350
FUND BALANCE - End of Year	\$ 10,339	\$ 168,111	\$ 266,927	\$ 445,377

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

GENERAL FUND

COMPARATIVE BALANCE SHEET
JUNE 30,

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 1,612,887	\$ 1,358,405
Taxes Receivable	14,484	18,035
Due from Other Funds	24,113	87,810
Due from Other Governmental Units	1,242,999	1,145,737
Investments	58,641	56,396
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 2,953,124</u>	<u>\$ 2,666,383</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 259,075	\$ 246,331
Salaries Payable	371,024	376,238
Deferred Revenue	103,904	82,375
	<hr/>	<hr/>
Total Liabilities	<u>734,003</u>	<u>704,944</u>
<u>FUND BALANCE</u>		
Unreserved		
Designated for:		
Compensated Absences	200,000	200,000
Undesignated	2,019,121	1,761,439
	<hr/>	<hr/>
Total Fund Balance	<u>2,219,121</u>	<u>1,961,439</u>
	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 2,953,124</u>	<u>\$ 2,666,383</u>

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2006
WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED JUNE 30, 2005

	2006		2005
	BUDGET	ACTUAL	ACTUAL
<u>REVENUES</u>			
Local Sources	\$ 1,063,649	\$ 1,055,265	\$ 967,797
State Sources	5,615,088	5,606,209	5,657,512
Federal Sources	574,528	555,049	353,917
Other Transactions	403,800	412,069	192,085
Total Revenues	7,657,065	7,628,592	7,171,311
<u>EXPENDITURES</u>			
Instruction			
Basic Programs	3,622,605	3,504,113	3,600,685
Added Needs	1,007,347	940,291	1,033,888
Adult/Continuing Education	121,985	118,025	119,236
Supporting Services			
Pupil	174,374	170,793	52,938
Instructional Staff	258,529	248,624	117,780
General Administration	303,609	306,744	331,363
School Administration	496,825	503,674	533,168
Business	78,718	83,035	88,719
Operations and Maintenance	751,919	718,839	848,550
Pupil Transportation Services	393,438	450,874	386,811
Central Services	207,697	198,685	198,371
Community Services			
Custody and Care of Children	6,487	6,487	1,272
Total Expenditures	7,423,533	7,250,184	7,312,781
Excess of Revenues Over (Under) Expenditures	233,532	378,408	(141,470)
<u>OTHER FINANCING SOURCES (USES)</u>			
Proceeds from the Sale of Capital Assets	0	0	100
Transfers In	0	57,760	0
Transfers Out	(178,450)	(178,486)	(231,177)
Total Other Financing Sources (Uses)	(178,450)	(120,726)	(231,077)
Net Change in Fund Balance	55,082	257,682	(372,547)
FUND BALANCE - Beginning of Year	1,961,439	1,961,439	2,333,986
FUND BALANCE - End of Year	\$ 2,016,521	\$ 2,219,121	\$ 1,961,439

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

GENERAL FUND
ANALYSIS OF REVENUES - BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2006
WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED JUNE 30, 2005

	2006		2005
	BUDGET	ACTUAL	ACTUAL
<u>LOCAL SOURCES</u>			
Property Taxes			
Current Levy	\$ 992,069	\$ 970,471	\$ 899,267
Penalties and Interest on Delinquent Taxes	380	397	789
Commercial Forest	200	202	244
Transportation	7,000	6,888	6,682
Earnings on Investments and Deposits	41,000	48,093	29,481
Other Local Revenues			
Rentals	500	8,757	10,682
Universal Service Fund Reimbursements	7,100	15,772	15,924
Miscellaneous	15,400	4,685	4,728
Total Local Sources	1,063,649	1,055,265	967,797
<u>STATE SOURCES</u>			
Grants-In-Aid Unrestricted			
State School Aid			
Foundation Allowance - Regular	5,111,741	5,102,475	5,141,082
Foundation Allowance- Special Education	144,251	151,323	177,435
Renaissance Zone	8,077	9,364	0
Adult Education	6,460	6,537	6,568
Grants-In-Aid Restricted			
State School Aid			
At Risk	234,549	226,500	222,974
Advanced and Accelerated Learning	0	0	127
Durant Non-Plaintiff Settlement	4,410	4,410	4,410
Received Through Intermediate School District			
Early Childhood	105,600	105,600	104,916
Total State Sources	5,615,088	5,606,209	5,657,512

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

GENERAL FUND
ANALYSIS OF REVENUES - BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2006
WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED JUNE 30, 2005

	<u>2006</u>		<u>2005</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>FEDERAL SOURCES</u>			
Grants-In-Aid Restricted			
Received Through the State			
Safe and Drug Free Schools	6,762	6,762	9,525
Title I	278,514	255,226	240,078
Title IIA - Improving Teacher Quality	65,109	65,109	65,143
Title IID - Technology Literacy Challenge	5,196	5,196	6,054
Title V - LEA Allocation	7,547	7,547	11,177
Reading First Grant	181,500	181,500	0
Elementary and Secondary Education Hurricane Relief for Displaced Students	0	2,050	0
Received Through Intermediate School District			
Medicaid Outreach	3,900	4,891	6,235
Payments in Lieu of Taxes			
National Forest	26,000	26,768	15,705
Total Federal Sources	574,528	555,049	353,917
<u>OTHER TRANSACTIONS</u>			
Transfers from Other School Districts			
Pre-K Transportation	11,000	14,402	20,229
Special Education - Added Cost	100,000	100,111	89,432
Special Education - Cost Reimbursement	228,340	228,340	0
Medicaid Caseload Coordination	14,000	14,881	16,150
Transition Mini Grant	21,944	21,944	22,357
Natural History Grant	0	0	270
Natural Helpers Grants	0	0	2,500
Other	400	434	8,192
Refund of Prior Year Expense	28,116	31,957	32,955
Total Other Transactions	403,800	412,069	192,085
<u>OTHER FINANCING SOURCES</u>			
Proceeds From the Sale of Capital Assets	0	0	100
Transfer In - Oil and Gas Capital Projects	0	57,760	0
Total Other Financing Sources	0	57,760	100
TOTAL REVENUES	\$ 7,657,065	\$ 7,686,352	\$ 7,171,411

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

GENERAL FUND
ANALYSIS OF EXPENDITURES - BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2006
WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED JUNE 30, 2005

	2006		2005
	BUDGET	ACTUAL	ACTUAL
<u>Instruction</u>			
<u>Basic Programs</u>			
<u>Elementary</u>			
Salaries	\$ 799,285	\$ 771,608	\$ 807,780
Employee Benefits	428,859	462,562	427,242
Purchased Services	100	271	103
Supplies and Materials	15,400	15,029	36,253
Capital Outlay	9,500	6,715	0
Other Expense	1,000	749	154
Total Elementary	1,254,144	1,256,934	1,271,532
 <u>Middle/Junior High</u>			
Salaries	711,600	688,922	744,502
Employee Benefits	389,029	356,213	389,914
Purchased Services	1,100	632	31,207
Supplies and Materials	18,500	16,876	31,080
Capital Outlay	21,200	22,716	2,361
Other Expense	1,350	1,401	662
Total Middle/Junior High	1,142,779	1,086,760	1,199,726
 <u>High School</u>			
Salaries	648,480	657,161	625,412
Employee Benefits	388,402	307,786	325,911
Purchased Services	24,700	20,768	19,761
Supplies and Materials	40,300	38,007	51,554
Capital Outlay	17,000	30,024	1,330
Other Expense	1,200	1,073	543
Total High School	1,120,082	1,054,819	1,024,511
 <u>Pre-School</u>			
Purchased Services	105,600	105,600	104,916

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

GENERAL FUND
ANALYSIS OF EXPENDITURES - BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2006
WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED JUNE 30, 2005

	2006		2005
	BUDGET	ACTUAL	ACTUAL
<u>Added Needs</u>			
<u>Special Education</u>			
Salaries	316,588	311,104	299,177
Employee Benefits	167,694	164,742	148,492
Purchased Services	4,250	3,894	7,030
Supplies and Materials	1,800	1,740	1,590
Capital Outlay	375	167	1,375
Other Expense	400	100	182
Total Special Education	491,107	481,747	457,846
<u>Compensatory Education</u>			
Salaries	173,917	179,320	195,731
Employee Benefits	117,680	112,557	106,824
Purchased Services	14,805	2,786	1,641
Supplies and Materials	14,910	3,393	5,469
Capital Outlay	7,000	2,708	0
Total Compensatory Education	328,312	300,764	309,665
<u>Compensatory Education - At Risk</u>			
Salaries	79,898	80,550	152,882
Employee Benefits	95,030	55,427	90,187
Purchased Services	13,000	12,963	12,134
Supplies and Materials	0	53	0
Capital Outlay	0	0	310
Total Compensatory Education-At Risk	187,928	148,993	255,513
<u>Drug Free Schools</u>			
Salaries	0	500	500
Employee Benefits	0	120	113
Purchased Services	0	7,076	7,686
Supplies and Materials	0	1,091	2,565
Total Drug Free Schools	0	8,787	10,864

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

GENERAL FUND
ANALYSIS OF EXPENDITURES - BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2006
WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED JUNE 30, 2005

	2006		2005
	BUDGET	ACTUAL	ACTUAL
<u>Adult/Continuing Education</u>			
<u>Secondary Adult Education</u>			
Salaries	5,000	5,184	7,184
Employee Benefits	1,680	1,421	1,710
Purchased Services	0	180	0
Supplies and Materials	100	0	0
Total Secondary Adult Education	6,780	6,785	8,894
 <u>Secondary Vocational</u>			
Salaries	75,162	75,230	74,291
Employee Benefits	37,703	34,029	34,137
Purchased Services	200	0	270
Supplies and Materials	1,740	1,981	1,410
Capital Outlay	225	0	234
Other Expense	175	0	0
Total Secondary Vocational	115,205	111,240	110,342
 <u>Supporting Services</u>			
<u>Pupil</u>			
<u>Guidance Services</u>			
Salaries	36,325	36,101	29,318
Employee Benefits	23,786	24,120	18,217
Purchased Services	700	657	399
Supplies and Materials	375	376	130
Capital Outlay	50	0	234
Other Expenses	120	123	0
Total Guidance Services	61,356	61,377	48,298
 <u>Health Services</u>			
Purchased Services	150	135	210
Supplies and Materials	100	0	0
Total Health Services	250	135	210

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

GENERAL FUND
ANALYSIS OF EXPENDITURES - BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2006
WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED JUNE 30, 2005

	2006		2005
	BUDGET	ACTUAL	ACTUAL
<u>Social Work Services</u>			
Salaries	88,266	88,245	0
Employee Benefits	19,542	16,284	0
Total Social Work Services	107,808	104,529	0
 <u>Other Pupil Support Services</u>			
Salaries	4,000	3,086	2,825
Employee Benefits	960	741	636
Purchased Services	0	0	969
Supplies and Materials	0	925	0
Total Other Pupil Support Services	4,960	4,752	4,430
 <u>Instructional Staff</u>			
<u>Improvement of Instruction</u>			
Salaries	61,277	63,081	13,700
Employee Benefits	29,852	29,947	3,057
Purchased Services	8,425	7,434	4,843
Supplies and Materials	91,693	85,980	144
Other Expense	170	160	0
Total Improvement of Instruction	191,417	186,602	21,744
 <u>Educational Media Services</u>			
Salaries	24,953	24,934	60,584
Employee Benefits	30,599	29,729	28,537
Purchased Services	1,000	929	929
Supplies and Materials	6,000	4,135	4,295
Capital Outlay	2,100	0	1,691
Total Educational Media Services	64,652	59,727	96,036
 <u>Supervision and Direction of Instructional Staff</u>			
Salaries	2,000	2,000	0
Employee Benefits	460	295	0
Total Supervision and Direction of Instructional Staff	2,460	2,295	0

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

GENERAL FUND
ANALYSIS OF EXPENDITURES - BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2006
WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED JUNE 30, 2005

	2006		2005
	BUDGET	ACTUAL	ACTUAL
<u>General Administration</u>			
<u>Board of Education</u>			
Employee Benefits	339	339	75
Purchased Services	108,600	105,548	128,657
Supplies and Materials	10,475	8,668	0
Other Expense	4,700	4,732	16,043
Total Board of Education	124,114	119,287	144,775
 <u>Executive Administration</u>			
Salaries	120,033	128,674	135,561
Employee Benefits	56,462	56,964	48,631
Purchased Services	800	485	735
Supplies and Materials	800	352	375
Capital Outlay	400	0	498
Other Expense	1,000	982	788
Total Executive Administration	179,495	187,457	186,588
 <u>School Administration</u>			
<u>Office of the Principal</u>			
Salaries	271,519	283,925	351,537
Employee Benefits	139,038	135,117	168,286
Purchased Services	78,368	78,468	1,060
Supplies and Materials	5,000	3,571	7,865
Capital Outlay	1,100	994	2,104
Other Expenses	1,800	1,599	2,316
Total Office of the Principal	496,825	503,674	533,168
 <u>Business</u>			
<u>Fiscal Services</u>			
Salaries	38,357	38,357	36,239
Employee Benefits	19,861	19,700	18,964
Purchased Services	2,800	1,023	2,467
Supplies and Materials	5,000	5,057	5,529
Capital Outlay	500	170	1,534
Other Expense	200	130	135
Total Fiscal Services	66,718	64,437	64,868

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

GENERAL FUND
ANALYSIS OF EXPENDITURES - BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2006
WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED JUNE 30, 2005

	2006		2005
	BUDGET	ACTUAL	ACTUAL
<u>Other Business Services</u>			
Purchased Services	0	18,598	19,879
Other Expenses	12,000	0	3,972
Total Other Business Services	12,000	18,598	23,851
<u>Operations and Maintenance</u>			
Salaries	233,733	231,390	220,883
Employee Benefits	114,786	110,472	115,985
Purchased Services	361,500	337,084	478,128
Supplies and Materials	38,500	38,844	30,308
Capital Outlay	3,000	824	2,567
Other Expenses	400	225	679
Total Operations and Maintenance	751,919	718,839	848,550
<u>Pupil Transportation Services</u>			
Salaries	166,756	166,214	175,898
Employee Benefits	111,882	108,332	107,014
Purchased Services	107,950	117,683	31,823
Supplies and Materials	6,000	363	71,486
Capital Outlay	200	57,760	0
Other Expense	650	522	590
Total Pupil Transportation Services	393,438	450,874	386,811
<u>Central Services</u>			
<u>Support Services Technology</u>			
Salaries	80,080	81,735	71,159
Employee Benefits	47,767	47,838	40,464
Purchased Services	22,000	19,550	22,181
Supplies and Materials	10,100	8,697	9,734
Capital Outlay	47,600	40,837	54,809
Other Expense	150	28	24
Total Support Services Technology	207,697	198,685	198,371

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

GENERAL FUND
ANALYSIS OF EXPENDITURES - BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2006
WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED JUNE 30, 2005

	2006		2005
	BUDGET	ACTUAL	ACTUAL
<u>Community Services</u>			
<u>Custody and Care of Children</u>			
Employee Benefits	6,487	6,487	1,272
Total Expenditures	7,423,533	7,250,184	7,312,781
 <u>OTHER FINANCING USES</u>			
<u>Transfers Out</u>			
School Service Funds			
Food Service	43,700	44,000	18,480
Athletic Activities	134,750	134,486	212,697
Total Other Financing Uses	178,450	178,486	231,177
 TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>\$ 7,601,983</u>	<u>\$ 7,428,670</u>	<u>\$ 7,543,958</u>

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

SPECIAL REVENUE (SCHOOL SERVICE) FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2006
WITH COMPARATIVE TOTALS FOR JUNE 30, 2005

	FOOD SERVICE FUND	ATHLETIC ACTIVITIES FUND	<u>TOTALS</u>	
			2006	2005
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 28,680	\$ 3,183	\$ 31,863	\$ 90,095
Accounts Receivable	0	0	0	10
Inventory	4,186	0	4,186	2,356
TOTAL ASSETS	<u>\$ 32,866</u>	<u>\$ 3,183</u>	<u>\$ 36,049</u>	<u>\$ 92,461</u>
<u>LIABILITIES AND FUND BALANCE</u>				
<u>LIABILITIES</u>				
Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 142
Due to Other Funds	24,113	0	24,113	82,575
Deferred Revenue	1,597	0	1,597	1,801
Total Liabilities	<u>25,710</u>	<u>0</u>	<u>25,710</u>	<u>84,518</u>
<u>FUND BALANCE</u>				
Reserved for Inventory	4,186	0	4,186	2,356
Unreserved, Undesignated	2,970	3,183	6,153	5,587
Total Fund Balance	<u>7,156</u>	<u>3,183</u>	<u>10,339</u>	<u>7,943</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 32,866</u>	<u>\$ 3,183</u>	<u>\$ 36,049</u>	<u>\$ 92,461</u>

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

SPECIAL REVENUE (SCHOOL SERVICE) FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2006
WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2005

	FOOD SERVICE FUND	ATHLETIC ACTIVITIES FUND	TOTALS	
			2006	2005
<u>REVENUES</u>				
Local Sources	\$ 80,601	\$ 26,099	\$ 106,700	\$ 107,059
State Sources	11,747	0	11,747	13,843
Federal Sources	191,631	0	191,631	190,136
Total Revenues	283,979	26,099	310,078	311,038
<u>EXPENDITURES</u>				
Food Services	327,405	0	327,405	314,183
Athletic Activities	0	158,763	158,763	237,019
Total Expenditures	327,405	158,763	486,168	551,202
Excess (Deficiency) of Revenues Over (Under) Expenditures	(43,426)	(132,664)	(176,090)	(240,164)
<u>OTHER FINANCING SOURCES</u>				
Transfers In	44,000	134,486	178,486	231,177
Net Change in Fund Balance	574	1,822	2,396	(8,987)
FUND BALANCE - Beginning of Year	6,582	1,361	7,943	16,930
FUND BALANCE - End of Year	\$ 7,156	\$ 3,183	\$ 10,339	\$ 7,943

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

FOOD SERVICE FUND

COMPARATIVE BALANCE SHEET
JUNE 30,

	2006	2005
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 28,680	\$ 88,602
Inventory	4,186	2,356
	<hr/>	
TOTAL ASSETS	<u>\$ 32,866</u>	<u>\$ 90,958</u>
 <u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Due to Other Funds	\$ 24,113	\$ 82,575
Deferred Revenue	1,597	1,801
	<hr/>	
Total Liabilities	25,710	84,376
	<hr/>	
<u>FUND BALANCE</u>		
Reserved for Inventory	4,186	2,356
Unreserved, Undesignated	2,970	4,226
	<hr/>	
Total Fund Balance	7,156	6,582
	<hr/>	
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 32,866</u>	<u>\$ 90,958</u>

MESICK CONSOLIDATED SCHOOLS

MESICK, MICHIGAN

FOOD SERVICE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2006

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED JUNE 30, 2005

	2006		2005
	BUDGET	ACTUAL	ACTUAL
<u>REVENUES</u>			
Local Sources			
Food Sales			
Pupils	\$ 78,850	\$ 60,139	\$ 61,244
Adults	0	7,340	7,366
Ala Carte	0	5,822	7,369
Catering	0	6,107	6,408
Earnings on Investments and Deposits	0	470	380
Miscellaneous	0	723	1,659
State Sources			
State Aid	13,000	11,747	13,843
Federal Sources			
Federal Aid	173,250	177,575	174,840
U.S.D.A. Commodities			
Entitlement	0	11,925	13,230
Bonus	0	2,131	2,066
Total Revenues	265,100	283,979	288,405
<u>EXPENDITURES</u>			
Salaries	112,300	111,130	110,565
Employee Benefits	65,600	67,791	62,744
Purchased Services	3,350	9,153	9,186
Supplies and Materials	123,800	128,360	129,056
Capital Outlay	10,000	10,245	1,898
Other Expenses	300	726	734
Total Expenditures	315,350	327,405	314,183
Excess of Revenues Over (Under) Expenditures	(50,250)	(43,426)	(25,778)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In			
General Fund	40,200	40,200	15,000
General Fund - At Risk	3,500	3,800	3,480
Total Other Financing Sources (Uses)	43,700	44,000	18,480
Net Change in Fund Balance	(6,550)	574	(7,298)
FUND BALANCE - Beginning of Year	6,582	6,582	13,880
FUND BALANCE - End of Year	\$ 32	\$ 7,156	\$ 6,582

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

ATHLETIC ACTIVITIES FUND

COMPARATIVE BALANCE SHEET
JUNE 30,

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 3,183	\$ 1,493
Accounts Receivable	0	10
	<u>\$ 3,183</u>	<u>\$ 1,503</u>
 <u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 0	\$ 142
 <u>FUND BALANCE</u>		
Unreserved, Undesignated	<u>3,183</u>	<u>1,361</u>
 TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 3,183</u>	<u>\$ 1,503</u>

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

ATHLETIC ACTIVITIES FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2006
WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED JUNE 30, 2005

	2006		2005
	BUDGET	ACTUAL	ACTUAL
<u>REVENUES</u>			
Local Sources			
Admissions			
Regular Events	\$ 25,800	\$ 21,906	\$ 16,528
Tournaments	0	0	3,786
Entry Fees	0	2,735	2,244
Fundraisers	0	400	0
Earnings on Investments and Deposits	0	15	30
Reimbursements and Miscellaneous	0	1,043	45
Total Revenues	25,800	26,099	22,633
<u>EXPENDITURES</u>			
Salaries	82,000	77,541	120,123
Employee Benefits	26,865	25,996	71,144
Purchased Services	24,100	26,242	20,022
Supplies and Materials	14,875	23,372	16,457
Capital Outlay	11,450	3,488	6,896
Other Expenses	2,200	2,124	2,377
Total Expenditures	161,490	158,763	237,019
Excess (Deficiency) of Revenues Over (Under) Expenditures	(135,690)	(132,664)	(214,386)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In - General Fund	134,750	134,486	212,697
Net Change in Fund Balance	(940)	1,822	(1,689)
FUND BALANCE - Beginning of Year	1,361	1,361	3,050
FUND BALANCE - End of Year	\$ 421	\$ 3,183	\$ 1,361

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

DEBT RETIREMENT FUND

COMPARATIVE BALANCE SHEET

JUNE 30,

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 164,607	\$ 187,205
Taxes Receivable	<u>6,968</u>	<u>8,669</u>
TOTAL ASSETS	<u><u>\$ 171,575</u></u>	<u><u>\$ 195,874</u></u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Due to Other Funds	\$ 0	\$ 1,835
Deferred Revenue	<u>3,464</u>	<u>4,674</u>
Total Liabilities	<u>3,464</u>	<u>6,509</u>
<u>FUND BALANCE</u>		
Reserved for Debt Retirement	<u>168,111</u>	<u>189,365</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 171,575</u></u>	<u><u>\$ 195,874</u></u>

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

DEBT RETIREMENT FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30,

	<u>2006</u>	<u>2005</u>
<u>REVENUES</u>		
Local Sources		
Property Taxes		
Current Year Levy	\$ 543,126	\$ 524,645
Collections on Prior Years	1,338	1,393
Industrial Facilities and Renaissance Zone Taxes	3,369	1,087
Penalties and Interest on Delinquent Tax	140	381
Earnings on Investments and Deposits	7,244	5,267
	<hr/>	<hr/>
Total Local Sources	555,217	532,773
State Sources		
State School Aid - Durant	2,940	2,940
	<hr/>	<hr/>
Total Revenues	558,157	535,713
	<hr/>	<hr/>
<u>EXPENDITURES</u>		
Redemption of Serial Bonds	360,000	325,000
Interest on Debt	214,310	251,441
Paying Agent Fees and Other	525	525
Taxes Abated and Written Off	4,576	2,509
	<hr/>	<hr/>
Total Expenditures	579,411	579,475
	<hr/>	<hr/>
Net Change in Fund Balance	(21,254)	(43,762)
FUND BALANCE - Beginning of Year	189,365	233,127
	<hr/>	<hr/>
FUND BALANCE - End of Year	\$ 168,111	\$ 189,365
	<hr/>	<hr/>

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

OIL, GAS AND LAND LEASE CAPITAL PROJECTS FUND

COMPARATIVE BALANCE SHEET
JUNE 30,

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	<u>\$ 266,927</u>	<u>\$ 273,442</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Due to Other Funds	\$ 0	\$ 3,400
<u>FUND BALANCE</u>		
Unreserved		
Undesignated	<u>266,927</u>	<u>270,042</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 266,927</u>	<u>\$ 273,442</u>

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

OIL, GAS AND LAND LEASE CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2006
WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED JUNE 30, 2005

	<u>2006</u>		<u>2005</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Local Sources			
Earnings on Investments and Deposits	\$ 6,000	\$ 7,499	\$ 6,412
State Sources			
State Grants	0	530	0
Earnings on Investments and Deposits	\$ 6,000	\$ 8,029	\$ 6,412
<u>EXPENDITURES</u>			
Contracted Services	35,000	7,942	14,739
Capital Outlay	0	0	209,934
Total Expenditures	35,000	7,942	224,673
Excess (Deficiency) of Revenues Over (Under) Expenditures	(29,000)	87	(218,261)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers Out - General Fund	(57,760)	(57,760)	0
Sale of Timber	55,088	54,558	23,382
Total Other Financing Sources (Uses)	(2,672)	(3,202)	23,382
Net Change in Fund Balance	(31,672)	(3,115)	(194,879)
FUND BALANCE - Beginning of Year	270,042	270,042	464,921
FUND BALANCE - End of Year	\$ 238,370	\$ 266,927	\$ 270,042

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

AGENCY FUND

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND BALANCE
YEAR ENDED JUNE 30, 2006

	BALANCE 6/30/2005	RECEIPTS (Including Transfers)	DISBURSEMENTS	BALANCE 6/30/2006
Adult Education Club	\$ 624	\$ 354	\$ 528	\$ 450
Annual	427	9,245	9,666	6
Band	782	2,406	2,660	528
Band Boosters	9,298	22,948	20,301	11,945
Baseball	33	0	0	33
Book Fair	174	0	0	174
Boys Basketball	54	0	0	54
Bus Drivers	2,593	882	453	3,022
Cheerleaders	56	0	56	0
Class of 2005	3,249	0	1,663	1,586
Class of 2006	4,718	2,503	6,382	839
Class of 2007	5,824	7,054	7,268	5,610
Class of 2008	722	2,647	585	2,784
Class of 2009	0	3,967	167	3,800
Enviro Science Club	1,251	0	0	1,251
Forestry Account	1,317	0	0	1,317
General	2,657	5,204	5,170	2,691
Girls Basketball	301	308	238	371
Girls Track	13	0	0	13
Happy Hand	12,687	1,524	1,267	12,944
MS Student Council	1,901	1,308	1,460	1,749
National Honor Society	389	3,851	3,964	276
OM	1,988	233	298	1,923
Pop Account	1,419	861	1,742	538
Pop Account-Middle School	7,629	12,333	10,871	9,091
Pop Account-Superintendent	25,747	8,079	11,759	22,067
Project Hero	391	0	0	391
PTO	9,565	23,501	25,238	7,828
NOT Account	1,081	0	679	402
Ski Club	560	1,000	821	739
Speech	969	4,275	2,683	2,561
Student Council	2,875	2,826	3,163	2,538
Varsity	3,424	275	765	2,934

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

AGENCY FUND

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND BALANCE
YEAR ENDED JUNE 30, 2006

	BALANCE 6/30/2005	RECEIPTS (Including Transfers)	DISBURSEMENTS	BALANCE 6/30/2006
Leo's Club	0	524	520	4
Courtyard Grand	0	900	50	850
Manufacturing Class	0	2,102	631	1,471
Community Scholarship Fund	945	635	300	1,280
Gabier Scholarship Fund	593	1	300	294
F.M. Jewett Scholarship Fund	5,693	436	102	6,027
F.M. and L.E. Jewett Scholarship Fund	5,007	68	68	5,007
Nolf Scholarship Fund	32	0	32	0
	<u>\$ 116,988</u>	<u>\$ 122,250</u>	<u>\$ 121,850</u>	<u>\$ 117,388</u>
Represented by				
Assets				
Cash on Hand	\$ 50			\$ 50
Cash on Deposit	<u>116,938</u>			<u>117,338</u>
	<u>\$ 116,988</u>			<u>\$ 117,388</u>
Liabilities				
Due to Groups and Organizations	<u>\$ 116,988</u>			<u>\$ 117,388</u>

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

SCHEDULE OF 2005 TAX ROLL
YEAR ENDED JUNE 30, 2006

	TAXABLE VALUATION	TAXES ASSESSED	TAXES COLLECTED	TAXES RETURNED DELINQUENT
<u>GENERAL FUND (18.00 MILLS)</u>				
<u>WEXFORD COUNTY</u>				
Antioch Township	\$ 6,217,967	\$ 111,922	\$ 97,487	\$ 14,435
Boon Township	284,936	5,129	4,895	234
Colfax Township	6,060,204	109,083	95,664	13,419
Greenwood Township	333,598	6,005	5,841	164
Hanover Township	1,934,155	34,814	25,298	9,516
Selma Township	1,775,808	31,964	28,617	3,347
Slagle Township	7,853,777	141,367	131,855	9,512
Springville Township	17,126,222	308,269	263,854	44,415
Wexford Township	6,154,279	110,776	93,005	17,771
<u>MANISTEE COUNTY</u>				
Cleon Township	3,236,840	58,262	49,952	8,310
Marilla Township	2,937,818	52,880	50,625	2,255
	53,915,604	970,471	847,093	123,378

DEBT RETIREMENT FUND (4.25 MILLS)

<u>WEXFORD COUNTY</u>				
Antioch Township	18,467,614	78,484	68,712	9,772
Boon Township	1,481,143	6,295	6,001	294
Colfax Township	15,929,901	67,700	60,160	7,540
Greenwood Township	1,107,246	4,705	4,046	659
Hanover Township	5,629,430	23,924	18,715	5,209
Selma Township	6,129,781	26,050	23,112	2,938
Slagle Township	14,722,370	62,568	55,715	6,853
South Branch Township	154,475	656	656	0
Springville Township	32,638,918	138,709	113,243	25,466
Wexford Township	16,915,660	71,887	60,626	11,261
<u>MANISTEE COUNTY</u>				
Cleon Township	7,728,756	32,857	28,117	4,740
Marilla Township	6,892,084	29,291	27,660	1,631
	127,797,378	543,126	466,763	76,363

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

COMPARATIVE SCHEDULE OF CASH, CASH EQUIVALENTS AND INVESTMENTS
JUNE 30,

	<u>2006</u> <u>AMOUNT</u>	<u>2005</u> <u>AMOUNT</u>
<u>GOVERNMENT WIDE</u>		
<u>GENERAL FUND</u>		
Irwin Union Bank		
Operating Checking and Sweep Account	\$ 77,450	\$ 248,557
Payroll Checking and Sweep Account	1,065	691
Operating Money Market Fund	633,530	500,917
Certificate of Deposit	900,842	608,240
Michigan School District Liquid Asset Fund Plus		
MIMAX	58,641	56,396
	<u>1,671,528</u>	<u>1,414,801</u>
 <u>SPECIAL REVENUE (SCHOOL SERVICE) FUNDS</u>		
Food Service		
Citizens Bank		
Checking Account	28,680	88,602
Athletic Activities		
Citizens Bank		
Checking Account	3,183	1,493
	<u>31,863</u>	<u>90,095</u>
 <u>DEBT RETIREMENT FUNDS</u>		
Citizens Bank		
Checking Account	1,067	7,935
Irwin Union Bank		
Operating Money Market Fund	163,540	179,270
	<u>164,607</u>	<u>187,205</u>
 <u>CAPITAL PROJECTS FUND</u>		
Oil, Gas and Land Lease Projects Fund		
Irwin Union Bank		
Operating Money Market Fund	266,927	273,442
 Total Government Wide	<u>2,134,925</u>	<u>1,965,543</u>
 <u>FIDUCIARY</u>		
Citizens Bank		
Checking Account	104,781	104,718
Savings Accounts and Certificates of Deposit	12,607	12,270
 Total Fiduciary	<u>\$ 117,388</u>	<u>\$ 116,988</u>

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

SCHEDULE OF BONDS PAYABLE
JUNE 30, 2006

<u>TITLE OF ISSUE</u>	1997 School Building and Site Bonds		
<u>PURPOSE</u>	Erecting, furnishing and equipping a high school building; developing and improving the site; and acquiring and installing educational technology.		
<u>DATE OF ISSUE</u>	May 1, 1997		
<u>INTEREST PAYABLE</u>	May 1, and November 1, of Each Year		
<u>AMOUNT OF ISSUE</u>		\$	7,105,000
<u>AMOUNT OF ADVANCE REFUNDING RESULTING IN DEFEASANCE OF DEBT</u>			(5,735,000)
<u>AMOUNT REDEEMED</u>			
Current Year	\$	285,000	
Prior Years		<u>1,085,000</u>	<u>1,370,000</u>
<u>BALANCE OUTSTANDING</u>	June 30, 2006	\$	<u><u>0</u></u>

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

SCHEDULE OF BONDS PAYABLE
JUNE 30, 2006

<u>TITLE OF ISSUE</u>	2004 Refunding Bonds
<u>PURPOSE</u>	The Bonds are being issued for the purpose of advance refunding a portion of the school District's outstanding 1997 School Building and Site Bonds dated May 1, 1997, which are due and payable May 1, 2007 through May 1, 2018.
<u>DATE OF ISSUE</u>	March 25, 2004
<u>INTEREST PAYABLE</u>	May 1, and November 1, of Each Year
<u>AMOUNT OF ISSUE</u>	\$ 6,105,000
<u>AMOUNT REDEEMED</u>	
Current Year	\$ 75,000
Prior Years	<u>75,000</u> <u>150,000</u>
<u>BALANCE OUTSTANDING</u>	June 30, 2006 \$ <u><u>5,955,000</u></u>

<u>DUE DATES</u>	<u>INTEREST RATES</u>	<u>REQUIREMENTS</u>		
		<u>TOTAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
November 1, 2006		\$ 95,575	\$ 95,575	\$ 0
May 1, 2007	2.00%	490,575	95,575	395,000
November 1, 2007		91,625	91,625	0
May 1, 2008	2.25%	516,625	91,625	425,000
November 1, 2008		86,844	86,844	0
May 1, 2009	2.75%	536,844	86,844	450,000
November 1, 2009		80,656	80,656	
May 1, 2010	3.00%	545,656	80,656	465,000
November 1, 2010		73,681	73,681	
May 1, 2011	3.00%	553,681	73,681	480,000
November 1, 2011		66,481	66,481	
May 1, 2012	3.25%	561,481	66,481	495,000
November 1, 2012		58,438	58,438	
May 1, 2013	3.50%	573,438	58,438	515,000
November 1, 2013		49,425	49,425	
May 1, 2014	3.50%	579,425	49,425	530,000
November 1, 2014		40,150	40,150	
May 1, 2015	3.50%	590,150	40,150	550,000

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

SCHEDULE OF BONDS PAYABLE
JUNE 30, 2006

<u>DUE DATES</u>	<u>INTEREST RATES</u>	<u>REQUIREMENTS</u>		
		<u>TOTAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
November 1, 2015		30,525	30,525	
May 1, 2016	3.60%	580,525	30,525	550,000
November 1, 2016		20,625	20,625	
May 1, 2017	3.70%	570,625	20,625	550,000
November 1, 2017		10,450	10,450	
May 1, 2018	3.80%	560,450	10,450	550,000
		<u>\$ 7,363,950</u>	<u>\$ 1,408,950</u>	<u>\$ 5,955,000</u>

DENOMINATIONS

\$5,000 Each, or any Integral Multiple Thereof.

REDEMPTION PRIOR TO MATURITY

The Bonds or portions of the Bonds in multiples of \$5,000 maturing on or after May 1, 2015, are subject to redemption at the option of the School District in such order as the School District may determine and by lot within any maturity, on any interest payment date occurring on or after May 1, 2014, at par plus accrued interest to the date fixed for redemption.

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

SCHEDULE OF BONDS PAYABLE
JUNE 30, 2006

TAX LEVY FOR RETIREMENT OF BONDS

The resolution authorizing issuance of the Bonds and State law obligate the School District to levy a tax in an amount sufficient so that the estimated collections therefrom together with amounts, if any, to be borrowed from the School Bond Loan Fund, will be sufficient to pay promptly when due the principal of and interest on the Bonds becoming due prior to the time of the next tax levy. The tax levy shall not be subject to limitation as to rate or amount. Taxes for the payment of the principal of or interest on the Bonds are certified for collection each year with the school tax levies. In the event of the failure of the proper officials to certify taxes for the payment of the principal and interest requirements, a timely action in the nature of mandamus could compel certification and collection of adequate taxes for the next year or could compel the School District to make application to borrow the necessary funds from the School Bond Loan Fund and thus prevent a default. However, in the event that the principal of or interest on any Bond is not paid when due or upon proper presentation of the Bond or interest coupon to the agent or officer charged with making payment thereof (irrespective of whether an application by the School District to the State for a loan to pay such principal or interest has been made or approved), the State Treasurer shall forthwith pay such principal or interest upon presentation of the Bond or coupon to him. If sufficient funds for full payment of debt service on the Bonds do not reach the Paying Agent five business days prior to the debt service payment due date, the Paying Agent will notify the School District of the amount of insufficient funds four business days prior to the due date. In the event that the School District does not immediately resolve the insufficient funds situation, the Paying Agent will notify the Michigan Department of Treasury of the deficiency three business days before the payment due date and the State Treasurer shall make the payment. Any amount so paid by the State Treasurer shall be deemed a loan made to the School District pursuant to the requirements of Article IX, Section 16 of the State Constitution. Registered owners of the Bonds may attempt to obtain a money judgment against the School District for the principal amount of the Bonds or interest not paid when due and may periodically enforce the collection of the money judgment by requiring the tax assessing officers for the School District to place the amount of such judgment on the next tax rolls of the School District. The rights of the owners of the Bonds and the enforceability thereof are subject to bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and their enforcement also may be subject to the exercise of judicial discretion in appropriate cases.

MESICK CONSOLIDATED SCHOOLS

MESICK, MICHIGAN

SINGLE AUDIT

JUNE 30, 2006

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

SINGLE AUDIT
YEAR ENDED JUNE 30, 2006

TABLE OF CONTENTS

	<u>PAGES</u>
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	1-2
Schedule of Expenditures of Federal Awards	3
Notes to Schedule of Expenditures of Federal Awards	4
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	5-6
Summary Schedule of Prior Audit Findings	7
Schedule of Findings and Questioned Costs	8-9

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July 20, 2006

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education
Mesick Consolidated Schools
Mesick, Michigan

COMPLIANCE

We have audited the compliance of Mesick Consolidated Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Mesick Consolidated Schools major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Mesick Consolidated Schools' management. Our responsibility is to express an opinion on Mesick Consolidated Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mesick Consolidated Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Mesick Consolidated Schools' compliance with those requirements.

In our opinion, Mesick Consolidated Schools complied in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

INTERNAL CONTROL OVER COMPLIANCE

The management of Mesick Consolidated Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Mesick Consolidated Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the basic financial statements of Mesick Consolidated Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated July 20, 2006. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

MESICK CONSOLIDATED SCHOOLS

MESICK, MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE / GRANT NUMBER	FEDERAL CFDA NUMBER	APPROVED GRANT AWARD AMOUNT	INVENTORY/ ACCRUED (DEFERRED) REVENUE JULY 1, 2005	(MEMO ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS (CASH BASIS)	INVENTORY/ ACCRUED (DEFERRED) REVENUE JUNE 30, 2006	ADJUSTMENTS
U.S. Department of Education								
Passed Through Michigan Department of Education (M.D.E.)								
Title I - Part A Improve Basic Programs								
Project No. 061530-0506	84.010	\$ 278,514	\$ 0	\$ 0	\$ 255,226	\$ 198,648	\$ 56,578	\$ 0
Project No. 051530-0405	84.010	238,210	42,780	231,180	0	42,780	0	0
Total	84.010	516,724	42,780	231,180	255,226	241,428	56,578	0
Safe and Drug-Free Schools and Communities								
Project No. 062860 0506	84.186	6,762	0	0	6,762	6,762	0	0
Title V - LEA Allocation								
Project No. 060250 0506	84.298	7,547	0	0	7,547	3,700	3,847	0
Project No. 050250 0405	84.298	11,177	6,177	11,177	0	6,177	0	0
Total	84.298	18,724	6,177	11,177	7,547	9,877	3,847	0
Title IID - Technology Literacy Challenge								
Project No. 064290 0506	84.318	5,196	0	0	5,196	1,500	3,696	0
Project No. 050250 0405	84.318	6,054	3,404	6,054	0	3,404	0	0
Total	84.318	11,250	3,404	6,054	5,196	4,904	3,696	0
Reading First								
Project No. 052930 0506	84.357	181,500	0	0	181,500	120,955	60,545	0
Title IIA - Improving Teacher Quality								
Project No. 060520 0506	84.367	65,109	0	0	65,109	55,578	9,531	0
Project No. 050520 0405	84.367	65,143	10,743	65,143	0	10,743	0	0
Total	84.367	130,252	10,743	65,143	65,109	66,321	9,531	0
Elementary and Secondary Education Hurricane Relief for Displaced Students								
Project No. 064120	84.938C	2,050	0	0	2,050	0	2,050	0
Total Passed Through M.D.E.		867,262	63,104	313,554	523,390	450,247	136,247	0
Total U.S. Department of Education		867,262	63,104	313,554	523,390	450,247	136,247	0

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE / GRANT NUMBER	FEDERAL CFDA NUMBER	APPROVED GRANT AWARD AMOUNT	ACCRUED (DEFERRED) REVENUE JULY 1, 2005	(MEMO ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS (CASH BASIS)	ACCRUED (DEFERRED) REVENUE JUNE 30, 2006	ADJUSTMENTS
U.S. Department of Health and Human Services								
Passed Through Wexford-Missaukee Intermediate School District Medicaid Outreach - No Project Number	93.778	6,235	0	0	4,891	4,891	0	0
U.S. Department of Agriculture								
Child Nutrition Cluster:								
Passed Through Michigan Department of Education (M.D.E)								
National School Lunch Program								
Section 4 - Total Servings - 051950 and 061950	10.555	22,682	0	0	22,682	22,682	0	0
Section 11 - Free and Reduced - 051960 and 061960	10.555	121,640	0	0	121,640	121,640	0	0
Total	10.555	144,322	0	0	144,322	144,322	0	0
School Lunch Breakfast Program								
Breakfast - 051970 and 061970	10.553	33,253	0	0	33,253	33,253	0	0
Total Child Nutrition Cluster		177,575	0	0	177,575	177,575	0	0
Food Distribution								
Entitlement Commodities	10.550	11,925	0	0	11,925	11,925	0	0
Bonus Commodities	10.550	2,131	0	0	2,131	2,131	0	0
Total	10.550	14,056	0	0	14,056	14,056	0	0
Total Passed Through M.D.E.		191,631	0	0	191,631	191,631	0	0
Passed Through Wexford County and Manistee County, Michigan Schools and Roads: Grants to States - No Project Number	10.665	26,768	0	0	26,768	26,768	0	0
Total U.S. Department of Agriculture		218,399	0	0	218,399	218,399	0	0
TOTAL FEDERAL FINANCIAL ASSISTANCE		\$ 1,091,896	\$ 63,104	\$ 313,554	\$ 746,680 (C)	\$ 673,537 (B)	\$ 136,247	\$ 0

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

(A) Significant Accounting Policies Used in Preparing Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting and presents transactions in the same manner as reflected in the basic financial statements of the school district. The significant accounting policies used are described in footnote (1) to the June 30, 2006, basic financial statements.

(B) Reconciliation of Grant Section Auditor's Report with Schedule of Expenditures of Federal Awards

Management has utilized the Grant Section Auditor's Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards.

Current Cash Payments per Grant Section Auditor's Report dated June 30, 2006		\$ 627,822
Add Items Not on Grant Section Auditor's Report:		
Amounts Received as Pass Through from Intermediate School District		
Medicaid Outreach	\$ 4,891	
Amounts Received Through Counties		
Schools and Roads: Grants to States	26,768	
Amounts Received as Payments in Kind Food Distribution Program		
Entitlement Commodities	11,925	
Bonus Commodities	<u>2,131</u>	<u>45,715</u>
Current Year Receipts (Cash Basis) per Schedule of Expenditures of Federal Awards		\$ <u><u>673,537</u></u>

(C) Reconciliation of Revenues with Expenditures for Federal Financial Assistance Programs

Revenues from Federal Sources - Per Basic Financial Statements - Page 5	\$ <u><u>746,680</u></u>
Federal Expenditures per Schedule of Expenditures of Federal Awards	\$ <u><u>746,680</u></u>

Baird, Cotter and Bishop, P.C.

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July 20, 2006

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
Mesick Consolidated Schools
Mesick, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mesick Consolidated Schools as of and for the year ended June 30, 2006, which collectively comprise the Mesick Consolidated Schools basic financial statements and have issued our report thereon dated July 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Mesick Consolidated Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely effect Mesick Consolidated Schools' ability to initiate, record, process and report financial data consistent with the assertions of management in the basic financial statements. Reportable condition is described in the accompanying schedule of findings and questioned costs as item B-a.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to the management of Mesick Consolidated Schools in a separate letter dated July 20, 2006.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Mesick Consolidated Schools' basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Prior Year Findings and Reportable Conditions

Reportable Conditions:

- a. The relatively small number of people involved in the accounting functions of the District make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation. We realize that it is not financially practical for the Board to establish a larger accounting staff in order to implement proper segregation of duties.

The District is aware of this limitation and continues to explore cost effective measures to improve this internal control limitation.

This finding is repeated for the current fiscal year.

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

A. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Reportable condition(s) identified: X Yes No

Reportable condition(s) identified as material weakness(es)? Yes X No

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

Reportable condition(s) identified: Yes X No

Reportable condition(s) identified as material weakness(es)? Yes X No

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I - Improving Basic Programs
84.357	Reading First State Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes X No

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

B. Findings - Basic Financial Statements Audit

Reportable Conditions:

- a. The relatively small number of people involved in the accounting functions of the District make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation. We realize that it is not financially practical for the Board to establish a larger accounting staff in order to implement proper segregation of duties.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. The reportable condition noted above was not considered to be a material weakness.

Corrective Action Plan

Inadequate segregation of duties.

With the status of state funding, the District is unable to hire additional employees at this time to improve the segregation of duties within the accounting function. We realize that segregation of duties is important in order to increase internal control. Management oversight has been an alternative means of monitoring internal control along with continuing to try and reassign some duties within the accounting department to other staff members. We still are exploring ways to spread some of the day-to-day accounting responsibilities. The District, the Superintendent and the Board of Education will continue to monitor the situation and explore cost effective ways to improve this internal control limitation.

C. Findings and Questioned Costs - Major Federal Award Programs Audit

None

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

July 20, 2006

LETTER OF COMMENTS AND RECOMMENDATIONS

Mesick Consolidated Schools
Mesick, Michigan

Dear Members of the Board and Administrators:

We have completed our audit of the financial statements of the Mesick Consolidated Schools as of and for the fiscal year ended June 30, 2006, and we would like to take this opportunity to comment on the following items relative to the management and accounting records/procedures of the School District:

Budgeting

The District currently does a good job formulating and monitoring the annual budget function. The Michigan Department of Education is working towards various policy adjustments in regards to budget violations and are considering retroactive implementation of these policies to the 2004-2005 and the 2005-2006 fiscal years.

Specifically, the Department will be focusing on a couple of significant areas as it relates to the General Fund.

1. Total Expenditure violations that exceed 1% of the Total Expenditures budget.
2. Total Other Financing Uses violations that exceed 1% of the Total Other Financing Uses budget.

A budget violation would include incurring expenditures in excess of the approved appropriation, ending the fiscal year with a deficit fund balance or adopting a budget that would result in a deficit fund balance.

The Department is also considering that a violation for the 2005-2006 fiscal year may also include a situation where the District did not achieve their full revenue budget and, at the same time, depleted the district fund balance beyond what had been approved.

These proposed policy adjustments will place a renewed importance on the need to monitor the budget process very closely.

Therefore, it will become ever more important for the District to be able to generate adequate financial information on an interim basis in order to be able to make accurate budgeting decisions. As a result, these systems need to be monitored and reviewed on a periodic basis to ensure that they are operating as intended and are providing the information necessary for the District to make sound business decisions and be able to comply.

We recommend the District review the 2006-2007 budget to make sure that actual revenues will be greater than budgeted revenues, that actual expenditures by function will not be greater than appropriated and that a negative fund balance is not budgeted.

In addition, the conference agreement relative to the 2006-2007 state school aid act reached July 12, 2006 includes a provision that will require the District to begin posting the annual operating budget as well subsequent budget amendments on the website for the District. It is expected that this requirement will become effective October 1, 2006. As a result, the District should begin preparing to meet this new requirement.

Changes to Employer 403(b) Plans

The Internal Revenue Service recently issued new regulations under Internal Revenue Code Section 403(b) which contains a series of provisions that will need to be a source of consideration for the District since it currently participates in allowing employees the option to defer a portion of their salaries and wages annually. These new regulations are effective January 1, 2008.

These new proposed regulations contain significant changes in the manner in which 403(b) Plans are administered and mandate additional requirements for the school district to implement if the 403(b) Plan is to qualify under the new IRS regulations. These new regulations place direct accountability on the school district for the program and give the district the discretion and authority to choose the benefit options of the plan.

Plan Document Required

The new regulations will now require a formal written plan document. This plan document must include all material provisions regarding eligibility, benefits, applicable contribution limits, a description of available contracts provided under the plan, loan procedures and provisions, hardship distributions and the time and form of any other distribution to be made from the plan as well as any other terms and conditions applicable to the plan.

Investment Options

All contracts (i.e. annuities) and custodial accounts (i.e. mutual funds) available under the plan must be described within the plan. School Districts will be required to maintain a current list of all providers authorized to provide products to employees as part of the plan. Thus the district controls the authorization process.

Meaningful Notice of the Plan

The regulations require employers to give their employees "meaningful notice" of their rights to participate in a 403(b) program and must provide an effective opportunity to make or to change an elective deferral election.

Deposit Requirements

The proposed regulations establish requirements that employers must transmit the employee's salary reduction contributions as soon as practicable but no later than the 15th business day of the month following the date on which the amounts would have been paid to the employee.

These are just a few of requirements set forth under this new regulation. We recommend that the District become aware of the provisions under these regulations as you work on implementing or modifying your current plan document so that you can be in compliance when they become effective.

Financial Information Database (FID)

The State of Michigan's Financial Information Database (FID) System has replaced the Form B report by requiring District's to submit their financial information electronically to the State using the State's new Chart of Accounts. The school is responsible for ensuring its' compliance with the State's new Chart of Accounts. The State has indicated it will accept FID transmittals using the State Chart through Change Notice Number 12 or 13 (School's choice).

We sincerely thank the Board of Education for awarding this firm the audit engagement of the Mesick Consolidated Schools. We also thank the administration and staff for their cooperative spirit and assistance in fulfilling this audit engagement. The friendly, cooperative and enthusiastic response to our requests for data, facts and figures is very much appreciated and enhances the efficiency of the audit process. If you have any questions relative to the preceding comments and recommendations or other areas of your annual audit, please feel free to contact us.

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